ALABAMA AG CREDIT, ACA

2022
Quarterly Report
Third Quarter

For the Quarter Ended September 30, 2022

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of our knowledge and belief.

Douglas Thiessen, Chief Executive Officer
November 8, 2022

Larry H. Gibson, Jr., Chairman, Board of Directors
November 8, 2022

Heather Smith, Sr. VP/Chief Financial Officer
November 8, 2022

Richard M. Stabler, CPA, Chairman, Audit Committee
November 8, 2022

Third Quarter 2022 Financial Report

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The following commentary reviews the financial performance of the Alabama Ag Credit ACA, referred to as the Association, for the quarter ended September 30, 2022. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2021 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events

After dropping the Fed target rate dramatically at the beginning of COVID pandemic early in 2020, rates have steadily increased in 2022. With inflation continuing to rise, the Fed increased rates by 75bps on September 21, 2022, (the fifth straight increase) with two more rate increases expected in 2022. Long term rates are expected to rise as well, but not at the pace of short-term rates, thus inverting, the treasury yield curve. History shows that the inverting of the yield curve signifies that a recession is forthcoming. The economy has contracted thus far this year. Financial markets have remained accessible, with the Funding Corp able to secure buyers for farm credit debt.

Loan Portfolio

The Association makes and services loans to farmers, ranchers, rural homeowners, and certain farm-related businesses. The Association's loan volume consists of long-term farm mortgage loans, production and intermediate-term loans, and farm-related business loans. These loans are available to eligible borrowers with competitive prime- and index-based, fixed, and adjustable interest rates and loan maturities ranging up to 40 years. Loans serviced by the Association offer several installment payment cycles, the timing of which usually coincides with seasonal cash-flow capabilities of the borrower.

Total loans outstanding at September 30, 2022, including nonaccrual loans, were $1,297,072,668 compared to $1,229,614,367 at December 31, 2021, reflecting an increase of 5.5%. Nonaccrual loans as a percentage of total loans outstanding were 0.2% at September 30, 2022, compared to 0.3% at December 31, 2021.

In July 2017, the United Kingdom's Financial Conduct Authority, the authority regulating the London Inter-Bank Offered Rate (LIBOR) announced that it will stop persuading or compelling banks to submit rates for the calculation of the LIBOR after 2021. The Bank established a LIBOR Workgroup, with cross-functional representation from the finance, operations, credit, and legal departments. The LIBOR Workgroup is progressing in implementing its transition plan to an alternative benchmark rate. In late 2020, the Funding Corporation launched an alternative benchmark rate based on SOFR as an alternative to LIBOR. The rate is a monthly-reset variable rate index and is published on the Funding Corporation's website. As of September 30, 2022, the Association had $40,322,219 in loan volume tied to the new index. The Association is actively working to reduce exposure to LIBOR, primarily by converting existing LIBOR loans to other rate products and ensuring all note agreements contain appropriate legal language allowing the change to a different index. At September 30, 2022, the Association's portfolio included LIBOR-indexed volume of $54,316,735, representing approximately 4.4 % of the loan portfolio. Of this amount, approximately $5.5 million is scheduled to mature prior to December 31, 2022.

The Association recorded $8,709 and $25,902 in recoveries for the three and nine ended September 30, 2022, compared to $9,427 and $29,069 in recoveries for the same period in 2021. The Association recorded no charge offs for the three and nine months ended September 30, 2022, as compared to $0 and $15,985 in charge offs for the same periods in 2021. The Association's allowance for loan losses was 0.6% and 0.7% of total loans outstanding as of September 30, 2022, and December 31, 2021, respectively.

Risk Exposure

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the association's components and trends of high-risk assets.

	September 30, 2022			December 31, 2021		
	Amount		%	Amount		%
Nonaccrual	$	2,465,038	30.1%	$	4,056,983	30.3%
90 days past due and still accruing interest		159,963	2.0%		-	0.0%
Formally restructured		5,554,949	67.9%		4,642,443	69.7%
Total	$	8,179,950	100.0%	$	8,699,426	100.0%

Results of Operations

The Association had net income of $5,566,316 and $16,121,163 for the three and nine months ended September 30, 2022, as compared to net income of $5,077,378 and $14,909,185 for the same period in 2021, reflecting an increase of 9.6% and 8.1%. Net interest income was $8,252,768 and $24,108,731 for the three and nine months ended September 30, 2022, compared to $8,125,693 and $23,355,855 for the same period in 2021.

	Nine Months Ended			
	September 30, 2022		September 30, 2021	
	Average Balance	Interest	Average Balance	Interest
Loans	$ 1,262,139,927	$ 42,002,277	$ 1,196,639,635	$ 39,114,338
Interest-bearing liabilities	1,062,790,713	17,893,546	1,006,466,109	15,758,483
Impact of capital	$ 199,349,214		$ 190,173,526	
Net interest income		$ 24,108,731		$ 23,355,855

	2022 Average Yield	2021 Average Yield
Yield on loans	4.4%	4.4%
Cost of interest-bearing liabilities	2.3%	2.1%
Interest rate spread	2.2%	2.3%
Net interest income as a percentage of average earning assets	2.6%	2.6%

	Nine months ended: September 30, 2022 vs. September 30, 2021		
	Increase (decrease) due to		
	Volume	Rate	Total
Interest income - loans	$ 2,140,988	$ 746,957	$ 2,887,945
Interest expense	881,902	1,253,167	2,135,069
Net interest income	$ 1,259,087	$ (506,211)	$ 752,876

Interest income for the three and nine months ended September 30, 2022, increased by $1,524,482 and $2,887,939, or 11.3% and 7.4% respectively, from the same period of 2021, primarily due to increases in yields on earning assets and an increase in average loan volume. Interest expense for the three and nine months ended September 30, 2022, increased by $1,397,407 and $2,135,063, or 26.2% and 13.5%, from the same period of 2021 due to an increase in interest rates and an increase in average debt volume. Average loan volume for the third quarter of 2022 was $1,284,115,450, compared to $1,217,837,639 in the third quarter of 2021. The average net interest rate spread on the loan portfolio for the quarter of 2022 was 2.2%, compared to 2.3% in the third quarter of 2021.

Noninterest income for the three and nine months ended September 30, 2022, increased by $666,310 and $1,27,888, or 72.7% and 50.8%, respectively, over the same periods of 2021. The increases are due primarily to an increase in patronage income accrual rate from the Bank in 2022 compared to 2021. The increase in patronage income was offset by a decrease in net loan fees in 2022 compared to 2021. The decrease in loans fees is due to a decrease in interest rate conversions due to the higher rate environment as compared to prior year.

Noninterest expenses for the three months and nine months ended September 30, 2022, increased by $516,793 and $1,635,056, or 13.3% and 14.2%, respectively, as compared to the same periods in 2021. The increases are primarily due to increases in salaries and benefits and higher travel and public relations expenses following the decline in COVID restrictions. Insurance expenses were also higher due to an increase in Insurance Fund premiums as a result of increased rates and growth in the Association's insurable debt.

The Association's return on average assets for the nine months ended September 30, 2022, was 1.7% compared to 1.6% for the same period in 2021. The Association's return on average equity for the nine months ended September 30, 2022, was 9.9%, compared to 9.6% for the same period in 2021.

Liquidity and Funding Sources

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the bank), which obtains its funds through the issuance of System-wide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2022	December 31, 2021
Note payable to the bank	**$ 1,094,365,472**	$ 1,025,517,581
Accrued interest on note payable	**2,271,066**	1,798,078
Total	**$ 1,096,636,538**	$ 1,027,315,659

The Association operates under a general financing agreement (GFA) with the bank. The current GFA is effective through September 30, 2023. The primary source of liquidity and funding for the Association is a direct loan from the bank. The outstanding balance of $1,094,365,472 as of September 30, 2022, is recorded as a liability on the Association's balance sheet. The note carried a weighted average interest rate of 2.56% at September 30, 2022. The indebtedness is collateralized by a pledge of substantially all of the Association's assets to the bank and is governed by the general financing agreement. The increase in note payable to the bank and related accrued interest payable since December 31, 2021, is due to the Association's increase in loan portfolio growth. The Association's own funds, which represent the amount of the Association's loan portfolio funded by the Association's equity, were $204,219,002 at September 30, 2022. The maximum amount the Association may borrow from the bank as of September 30, 2022, was $1,285,000,000 as defined by the general financing agreement. The indebtedness continues in effect until the expiration date of the general financing agreement, which is September 30, 2023, unless sooner terminated by the bank upon the occurrence of an event of default, or by the Association, in the event of a breach of this agreement by the bank, upon giving the bank 30 calendar days' prior written notice, or in all other circumstances, upon giving the bank 120 days' prior written notice.

Capital Resources

The Association's capital position increased by $16,170,378 at September 30, 2022, compared to December 31, 2021. The Association's debt as a percentage of members' equity was 4.8:1 as of September 30, 2022, compared to 5.0:1 as of December 31, 2021.

Farm Credit Administration regulations require us to maintain minimums for various regulatory capital ratios. New regulations became effective January 1, 2017, which replaced the previously required core surplus and total surplus ratios with common equity tier 1, tier 1 capital, and total capital risk-based capital ratios. The new regulations also added tier 1 leverage and unallocated retained earnings and equivalents (UREE) ratios. The permanent capital ratio continues to remain in effect, with some modifications to align with the new regulations. As of September 30, 2022, the Association exceeded all regulatory capital requirements.

Significant Recent Accounting Pronouncements - Refer to Note 1 – "Organization and Significant Accounting Policies" in this quarterly report for disclosures of recent accounting pronouncements which may impact the association's consolidated financial position and results of operations and for critical accounting policies.

Relationship With the Farm Credit Bank of Texas

The Association's financial condition may be impacted by factors that affect the bank. The financial condition and results of operations of the bank may materially affect the stockholder's investment in the association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the 2021 Annual Report of Alabama Ag Credit, ACA more fully describe the Association's relationship with the bank.

The annual and quarterly stockholder reports of the bank are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, Corporate Communications, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9204. The annual and quarterly stockholder reports for the bank are also available on its website at *www.farmcreditbank.com.*

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Alabama Ag Credit, ACA, 7480 Halcyon Pointe Drive, Suite 201, Montgomery, AL 36117 or calling (334)270-8687. The annual and quarterly stockholder reports for the Association will be available on the Association's website at www.AlabamaAgCredit.com approximately 40 days after quarter end. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing Info@AlabamaAgCredit.com. The Association's annual stockholder report is available on its website 75 days after the fiscal year end. Copies of the Association's annual stockholder report can also be requested 90 days after the fiscal year end.

ALABAMA AG CREDIT, ACA

BALANCE SHEET

	September 30, 2022 (unaudited)	December 31, 2021
ASSETS		
Cash	**$ 20,739**	$ 8,686
Loans	**1,297,072,668**	1,229,614,367
Less: allowance for loan losses	**8,500,828**	8,804,126
Net loans	**1,288,571,840**	1,220,810,241
Accrued interest receivable	**11,233,521**	8,457,988
Investment in and receivable from the Farm Credit Bank of Texas:		
Capital stock	**20,155,010**	20,155,010
Other	**4,978,346**	2,132,556
Premises and equipment, net	**6,445,471**	6,308,781
Other assets	**2,018,469**	1,072,358
Total assets	**$ 1,333,423,396**	$ 1,258,945,620
LIABILITIES		
Note payable to the Farm Credit Bank of Texas	**$ 1,094,365,472**	$ 1,025,517,581
Accrued interest payable	**2,271,066**	1,798,078
Drafts outstanding	**1,692,424**	146,759
Patronage distributions payable	**45,006**	12,139,695
Other liabilities	**8,599,714**	9,064,171
Total liabilities	**1,106,973,682**	1,048,666,284
MEMBERS' EQUITY		
Capital stock and participation certificates	**4,506,600**	4,437,945
Unallocated retained earnings	**222,372,055**	206,271,466
Accumulated other comprehensive loss	**(428,941)**	(430,075)
Total members' equity	**226,449,714**	210,279,336
Total liabilities and members' equity	**$ 1,333,423,396**	$ 1,258,945,620

The accompanying notes are an integral part of these financial statements.

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2022	2021	**2022**	2021
INTEREST INCOME				
Loans	**$ 14,982,188**	$ 13,457,706	**$ 42,002,277**	$ 39,114,338
INTEREST EXPENSE				
Note payable to the Farm Credit Bank of Texas	**6,729,420**	5,332,013	**17,893,546**	15,758,483
Net interest income	**8,252,768**	8,125,693	**24,108,731**	23,355,855
PROVISION FOR LOAN LOSSES	**(137,975)**	74,371	**(313,290)**	152,980
Net interest income after provision for loan losses	**8,390,743**	8,051,322	**24,422,021**	23,202,875
NONINTEREST INCOME				
Income from the Farm Credit Bank of Texas:				
Patronage income	**1,489,044**	782,440	**4,305,496**	2,351,730
Loan fees	**41,128**	131,821	**260,034**	672,490
Gain on other property owned, net	**-**	1,520	**-**	52,020
Gain on sale of premises and equipment, net	**51,109**	521	**152,850**	54,946
Other noninterest income	**905**	479	**113,067**	72,373
Total noninterest income	**1,583,091**	916,781	**4,831,447**	3,203,559
NONINTEREST EXPENSES				
Salaries and employee benefits	**2,480,734**	2,412,356	**7,491,515**	7,029,866
Directors' expense	**98,787**	85,416	**318,505**	253,955
Purchased services	**119,200**	113,804	**297,583**	350,114
Travel	**264,139**	185,772	**659,876**	502,404
Occupancy and equipment	**298,125**	209,671	**874,888**	639,278
Communications	**96,978**	95,128	**265,201**	275,920
Advertising	**75,500**	78,638	**258,864**	242,554
Public and member relations	**209,723**	112,575	**489,908**	274,324
Supervisory and exam expense	**106,722**	104,534	**315,792**	287,917
Insurance Fund premiums	**502,741**	382,298	**1,730,789**	1,321,322
Other components of net periodic postretirement benefit cost	**26,092**	30,689	**78,276**	92,067
Other noninterest expense	**128,777**	79,844	**351,108**	227,528
Total noninterest expenses	**4,407,518**	3,890,725	**13,132,305**	11,497,249
NET INCOME	**5,566,316**	5,077,378	**16,121,163**	14,909,185
Other comprehensive income:				
Change in postretirement benefit plans	**378**	7,245	**1,134**	21,735
COMPREHENSIVE INCOME	**$ 5,566,694**	$ 5,084,623	**$ 16,122,297**	$ 14,930,920

The accompanying notes are an integral part of these combined financial statements.

ALABAMA AG CREDIT, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(unaudited)

	Capital Stock/ Participation Certificates	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
Balance at December 31, 2020	$ 4,289,225	$ 196,386,088	$ (659,156)	$ 200,016,157
Net income		14,909,185		14,909,185
Other comprehensive income			21,735	21,735
Capital stock/participation certificates issued	793,850			793,850
Capital stock/participation certificates retired	(648,905)			(648,905)
Patronage refunds:				
Change in patronage declared and paid		(4,991)		(4,991)
Balance at September 30, 2021	$ 4,434,170	$ 211,290,282	$ (637,421)	$ 215,087,031
Balance at December 31, 2021	$ 4,437,945	$ 206,271,466	$ (430,075)	$ 210,279,336
Net income		16,121,163		16,121,163
Other comprehensive income			1,134	1,134
Capital stock/participation certificates issued	556,540			556,540
Capital stock/participation certificates retired	(487,885)			(487,885)
Patronage refunds:				
Change in patronage declared and paid		(20,574)		(20,574)
Balance at September 30, 2022	**$ 4,506,600**	**$ 222,372,055**	**$ (428,941)**	**$ 226,449,714**

The accompanying notes are an integral part of these combined financial statements.

Unaudited (dollar amounts in thousands, except per share amounts and as otherwise noted)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Alabama Ag Credit, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Autauga, Baldwin, Barbour, Bibb, Bullock, Butler, Chambers, Chilton, Choctaw, Clarke, Coffee, Conecuh, Coosa, Covington, Crenshaw, Dale, Dallas, Elmore, Escambia, Geneva, Greene, Hale, Henry, Houston, Lee, Lowndes, Macon, Marengo, Mobile, Monroe, Montgomery, Perry, Pickens, Pike, Russell, Sumter, Tallapoosa, Tuscaloosa, Washington, and Wilcox in the state of Alabama. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the U.S. (GAAP) for interim financial information. Accordingly, they do not include all of the disclosures required by GAAP for annual financial statements and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders.

In the opinion of management, the accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles (GAAP), except for the inclusion of a statement of cash flows. GAAP require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements. These interim financial statements should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2021, as contained in the 2021 Annual Report to Stockholders. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The results of operations for interim periods are not necessarily indicative of the results to be expected for the full year ending December 31, 2021. Descriptions of the significant accounting policies are included in the 2021 Annual Report to Stockholders. In the opinion of management, these policies and the presentation of the interim financial condition and results of operations conform with GAAP and prevailing practices within the banking industry.

In March 2022, the Financial Accounting Standards Board (FASB) issued an update entitled, "Financial Instruments - Credit Losses: Troubled Debt Restructurings and Vintage Disclosures." The guidance eliminates the accounting guidance for troubled debt restructurings (TDRs) by creditors while enhancing disclosure requirements for certain loan refinancing and restructurings when a borrower is experiencing financial difficulty. The creditor will have to apply the guidance to determine whether a modification results in a new loan or a continuation of an existing loan. In addition to the TDR guidance, the update requires public business entities to disclose current period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of the credit losses standard. These amendments will be effective for the Association at the time of adoption of the measurement of credit losses on financial instruments standard on January 1, 2023.

In June 2016, the FASB issued guidance entitled "Measurement of Credit Losses on Financial Instruments." The guidance replaces the current incurred loss impairment methodology with a single allowance framework for financial assets carried at amortized cost, which reflects management's estimate of expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Credit losses relating to held-to maturity securities and depending on the situation available-for-sale securities would also be recorded through an allowance for credit losses. For public business entities that are not U.S. Securities and Exchange Commission filers including this, entity, this guidance becomes effective for interim and annual reporting periods beginning after December 15, 2022. We continue to test and refine our current expected loss models.

The Association intends to estimate losses over a three-year forecast period using a range of macroeconomic variables and then revert to the entity's historical loss experience over an extended period of time. The Association continues to evaluate the impact of adoption on its financial condition and results of operations.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter ended September 30, 2022, are not necessarily indicative of the results to be expected for the year ended December 31, 2022. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

Loan Type	**September 30, 2022 Amount**	December 31, 2021 Amount
Production agriculture:		
Real estate mortgage	**$ 1,012,479,580**	$ 998,985,301
Production and intermediate term	**129,921,080**	113,307,883
Agribusiness:		
Loans to cooperatives	**13,131,783**	5,625,925
Processing and marketing	**43,162,136**	35,054,092
Farm-related business	**29,863,852**	22,633,008
Energy	**1,008,908**	1,214,708
Water and waste water	**7,948,119**	1,336,337
Rural residential real estate	**57,979,908**	49,880,090
Agricultural export finance	**1,577,302**	1,577,023
Total	**$ 1,297,072,668**	$1,229,614,367

The Association purchases or sells participation interests with other parties in order to diversify risk, manage loan volume and comply with Farm Credit Administration regulations. The following table presents information regarding the balances of participations purchased and sold at September 30, 2022:

	Other Farm Credit Institutions		Non-Farm Credit Institutions		Total	
	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold	Participations Purchased	Participations Sold
Real estate mortgage	$ 5,819,660	$ 25,007,369	$ -	$ -	$ 5,819,660	$ 25,007,369
Production and intermediate term	15,570,958	-	-	-	15,570,958	-
Agribusiness	64,483,775	41,295,573	-	-	64,483,775	41,295,573
Energy	1,008,908	-	-	-	1,008,908	-
Water and waste water	7,948,119	-	-	-	7,948,119	-
Agricultural export finance	1,577,302	-	-	-	1,577,302	-
Total	$ 96,408,723	$ 66,302,942	$ -	$ -	$ 96,408,723	$ 66,302,942

The Association is authorized under the Farm Credit Act to accept "advance conditional payments" (ACPs) from borrowers. To the extent the borrower's access to such ACPs is restricted and the legal right of setoff exists, the ACPs are netted against the borrower's related loan balance. Unrestricted advance conditional payments are included in other liabilities. ACPs are not insured, and interest is generally paid by the Association on such balances. Balances of ACPs were $26,972,175 and $18,605,779 at September 30, 2022, and December 31, 2021, respectively.

Nonperforming assets (including related accrued interest) and related credit quality statistics are as follows:

	September 30, 2022	December 31, 2021
Nonaccrual loans:		
Real estate mortgage	**$ 2,170,948**	$ 3,347,224
Production and intermediate term	**262,569**	649,187
Rural residential real estate	**31,521**	60,572
Total nonaccrual loans	**2,465,038**	4,056,983
Accruing restructured loans:		
Real estate mortgage	**4,448,627**	3,565,659
Production and intermediate term	**1,106,322**	1,076,784
Total accruing restructured loans	**5,554,949**	4,642,443
Accruing loans 90 days or more past due:		
Real estate mortgage	**119,529**	-
Production and intermediate term	**40,434**	-
Total accruing loans 90 days or more past due	**159,963**	-
Total nonperforming assets	**$ 8,179,950**	$ 8,699,426

One credit quality indicator utilized by the Association is the Farm Credit Administration Uniform Loan Classification System that categorizes loans into five categories. The categories are defined as follows:

- Acceptable – assets are expected to be fully collectible and represent the highest quality;
- Other assets especially mentioned (OAEM) – assets are currently collectible but exhibit some potential weakness;
- Substandard – assets exhibit some serious weakness in repayment capacity, equity and/or collateral pledged on the loan;
- Doubtful – assets exhibit similar weaknesses to substandard assets; however, doubtful assets have additional weaknesses in existing factors, conditions and values that make collection in full highly questionable; and
- Loss – assets are considered uncollectible.

The following table shows loans and related accrued interest as a percentage of total loans and related accrued interest receivable by loan type as of:

	September 30, 2022	December 31, 2021
Real estate mortgage		
Acceptable	**98.4** %	98.6 %
OAEM	**0.7**	0.6
Substandard/doubtful	**0.9**	0.8
	100.0	100.0
Production and intermediate term		
Acceptable	**98.6**	97.3
OAEM	**1.1**	1.2
Substandard/doubtful	**0.3**	1.5
	100.0	100.0
Agribusiness		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Energy and water/waste water		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Rural residential real estate		
Acceptable	**99.7**	99.8
OAEM	**0.1**	0.1
Substandard/doubtful	**0.2**	0.1
	100.0	100.0
Agricultural export finance		
Acceptable	**100.0**	100.0
OAEM	**-**	-
Substandard/doubtful	**-**	-
	100.0	100.0
Total loans		
Acceptable	**98.6**	98.6
OAEM	**0.7**	0.6
Substandard/doubtful	**0.7**	0.8
	100.0 %	100.0 %

The following tables provide an age analysis of past due loans (including accrued interest) as of:

September 30, 2022	**30-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Not Past Due or Less Than 30 Days Past Due**	**Total Loans**	**Recorded Investment >90 Days and Accruing**
Real estate mortgage	**$ 3,807,357**	**$ 367,011**	**$ 4,174,368**	**$ 1,017,351,569**	**$ 1,021,525,937**	**$ 119,529**
Production and intermediate term	**386,770**	**207,003**	**593,773**	**130,944,897**	**131,538,670**	**40,434**
Loans to cooperatives	**-**	**-**	**-**	**13,236,260**	**13,236,260**	**-**
Processing and marketing	**-**	**-**	**-**	**43,302,279**	**43,302,279**	**-**
Farm-related business	**-**	**-**	**-**	**29,990,314**	**29,990,314**	**-**
Energy	**-**	**-**	**-**	**1,013,096**	**1,013,096**	**-**
Water and waste water	**-**	**-**	**-**	**7,956,850**	**7,956,850**	**-**
Rural residential real estate	**232,144**	**31,521**	**263,665**	**57,897,838**	**58,161,503**	**-**
Agricultural export finance	**-**	**-**	**-**	**1,581,280**	**1,581,280**	**-**
Total	**$ 4,426,271**	**$ 605,535**	**$ 5,031,806**	**$ 1,303,274,383**	**$ 1,308,306,189**	**$ 159,963**

December 31, 2021	30-89 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans	Recorded Investment >90 Days and Accruing
Real estate mortgage	$ 3,830,400	$ 1,231,486	$ 5,061,886	$ 1,000,844,097	$ 1,005,905,983	$ -
Production and intermediate term	-	432,736	432,736	114,108,886	114,541,622	-
Loans to cooperatives	-	-	-	5,635,136	5,635,136	-
Processing and marketing	-	-	-	35,167,242	35,167,242	-
Farm-related business	-	-	-	22,673,453	22,673,453	-
Energy	-	-	-	1,216,646	1,216,646	-
Water and waste water	-	-	-	1,336,396	1,336,396	-
Rural residential real estate	48,896	27,126	76,022	49,941,263	50,017,285	-
Agricultural export finance	-	-	-	1,578,592	1,578,592	-
Total	$ 3,879,296	$ 1,691,348	$ 5,570,644	$ 1,232,501,711	$ 1,238,072,355	$ -

Note: The recorded investment in the receivable is the face amount increased or decreased by applicable accrued interest and unamortized premium, discount, finance charges or acquisition costs, and may also reflect a previous direct write-down of the investment.

A restructuring of a debt constitutes a troubled debt restructuring if the creditor for economic or legal reasons related to the debtor's financial difficulties grants a concession to the debtor that it would not otherwise consider. Troubled debt restructurings (TDRs) are undertaken in order to improve the likelihood of recovery on the loan and may include, but are not limited to, forgiveness of principal or interest, interest rate reductions that are lower than the current market rate for new debt with similar risk, or significant term or payment extensions.

As of September 30, 2022, the total recorded investment of troubled debt restructured loans was $7,287,694, including $1,732,746 classified as nonaccrual and $5,554,948 classified as accrual, with specific allowance for loan losses of $1,591,223. All loans classified as TDRs were individually evaluated to determine the need for allowance for loan losses. As of September 30, 2022, the Association had no commitments to lend funds to borrowers whose loan terms have been modified in a troubled debt restructuring.

The following tables present additional information regarding troubled debt restructurings, which includes both accrual and nonaccrual loans with troubled debt restructuring designation, that occurred during the three and nine months ended September 30, 2022. There were no new loans classified as TDRs during the three months ended September 30, 2022. The premodification outstanding recorded investment represents the recorded investment of the loans as of the quarter end prior to the restructuring. The post modification outstanding recorded investment represents the recorded investment of the loans as of the quarter end the restructuring occurred.

For the Nine Months Ended September 30, 2022	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 1,559,017	$ 1,563,937
Production and intermediate term	-	-
Total	$ 1,559,017	$ 1,563,937

For the Nine Months Ended September 30, 2021	Premodification Outstanding Recorded Investment	Postmodification Outstanding Recorded Investment
Troubled debt restructurings:		
Real estate mortgage	$ 3,428,601	$ 3,387,567
Production and intermediate term	1,785,400	1,871,326
Total	$ 5,214,001	$ 5,258,893

In restructurings where principal is forgiven, the amount of the forgiveness is immediately charged off. In restructurings where accrued interest is forgiven, the interest is reversed (if current year interest) or charged off (if prior year interest).

The predominant form of concession granted for troubled debt restructuring includes extension of the term and/or delayed payments. At times, these terms might be offset with incremental payments, collateral or new borrower guarantees, in which case we assess all of the modified terms to determine if the overall modification qualifies as a troubled debt restructuring.

The following table presents information regarding loans that met the accounting criteria as a troubled debt restructuring and that occurred within the previous 12 months and for which there was a subsequent payment default during the period. A payment default is defined as a payment that is 30 days past due after the date the loan was restructured.

Troubled debt restructurings that subsequently defaulted:	Recorded Investment at September 30, 2022	Recorded Investment at September 30, 2021
Real estate mortgage	$ 1,558,697	$ -
Production and intermediate term	198,777	-
Total	$ 1,757,474	$ -

The following table provides information on outstanding loans restructured in troubled debt restructurings at period end. These loans are included as impaired loans in the impaired loan table at:

	Loans Modified as TDRs		TDRs in Nonaccrual Status*	
	September 30, 2022	December 31, 2021	September 30, 2022	December 31, 2021
Real estate mortgage	$ 5,996,807	$ 4,804,946	$ 1,636,746	$ 1,239,288
Production and intermediate term	1,176,606	1,293,236	96,000	216,451
Total	$ 7,173,413	$ 6,098,182	$ 1,732,746	$ 1,455,739

*represents the portion of loans modified as TDRs that are in nonaccrual status

Additional impaired loan information is as follows:

	September 30, 2022			December 31, 2021		
	Recorded Investment	**Unpaid Principal Balance[a]**	**Related Allowance**	Recorded Investment	Unpaid Principal Balance[a]	Related Allowance
Impaired loans with a related allowance for credit losses:						
Real estate mortgage	**$ 6,093,694**	**$ 6,144,674**	**$ 1,442,798**	$ 5,462,259	$ 5,450,570	$ 1,519,795
Production and intermediate term	**1,343,175**	**1,398,342**	**352,220**	1,708,238	1,735,687	422,288
Rural residential real estate	**31,521**	**31,521**	**1,838**	-	-	-
Total	**$ 7,468,390**	**$ 7,574,537**	**$ 1,796,856**	$ 7,170,497	$ 7,186,257	$ 1,942,083
Impaired loans with no related allowance for credit losses:						
Real estate mortgage	**$ 555,533**	**$ 624,656**	**$ -**	$ 1,450,624	$ 1,561,770	$ -
Production and intermediate term	**40,210**	**126,608**	**-**	17,733	104,064	-
Rural residential real estate	**-**	**-**	**-**	60,572	60,572	-
Total	**$ 595,743**	**$ 751,264**	**$ -**	$ 1,528,929	$ 1,726,406	$ -
Total impaired loans:						
Real estate mortgage	**$ 6,649,227**	**$ 6,769,330**	**$ 1,442,798**	$ 6,912,883	$ 7,012,340	$ 1,519,795
Production and intermediate term	**1,383,385**	**1,524,950**	**352,220**	1,725,971	1,839,751	422,288
Rural residential real estate	**31,521**	**31,521**	**1,838**	60,572	60,572	-
Total	**$ 8,064,133**	**$ 8,325,801**	**$ 1,796,856**	$ 8,699,426	$ 8,912,663	$ 1,942,083

[a] Unpaid principal balance represents the recorded principal balance of the loan.

	For the Three Months Ended				For the Nine Months Ended			
	September 30, 2022		September 30, 2021		**September 30, 2022**		September 30, 2021	
	Average Impaired Loans	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized	**Average Impaired Loans**	**Interest Income Recognized**	Average Impaired Loans	Interest Income Recognized
Impaired loans with a related allowance for credit losses:								
Real estate mortgage	**$ 6,090,142**	**$ 56,853**	$ 4,597,286	$ 18,925	**$ 6,162,617**	**$ 166,040**	$ 4,374,134	$ 65,218
Production and intermediate term	**1,364,244**	**14,005**	658,495	-	**1,489,207**	**39,134**	658,514	76
Rural residential real estate	**31,521**	**-**	-	-	**32,050**	**-**	-	-
Total	**$ 7,485,907**	**$ 70,858**	$ 5,255,781	$ 18,925	**$ 7,683,874**	**$ 205,174**	$ 5,032,648	$ 65,294
Impaired loans with no related allowance for credit losses:								
Real estate mortgage	**$ 721,099**	**$ 3,096**	$ 1,376,586	$ 2,871	**$ 818,202**	**$ 14,694**	$ 3,055,547	$ 13,189
Production and intermediate term	**41,526**	**419**	1,743,445	13,288.00	**60,799**	**2,301**	1,459,243	24,275
Total	**$ 762,625**	**$ 3,515**	$ 3,120,031	$ 16,159	**$ 879,001**	**$ 16,995**	$ 4,514,790	$ 37,464
Total impaired loans:								
Real estate mortgage	**$ 6,811,241**	**$ 59,949**	**$ 5,973,872**	**$ 21,796**	**$ 6,980,819**	**$ 180,734**	**$ 7,429,681**	**$ 78,407**
Production and intermediate term	**1,405,770**	**14,424**	**2,401,940**	**13,288**	**1,550,006**	**41,435**	**2,117,757**	**24,351**
Rural residential real estate	**31,521**	**-**	**-**	**-**	**32,050**	**-**	**-**	**-**
Total	**$ 8,248,532**	**$ 74,373**	$ 8,375,812	$ 35,084	**$ 8,562,875**	**$ 222,169**	$ 9,547,438	$ 102,758

A summary of changes in the allowance for loan losses and period end recorded investment in loans is as follows:

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Allowance for Credit Losses:								
Balance at June 30, 2022	$ 7,845,123	$ 573,776	$ 144,640	$ -	$ 7,322	$ 79,896	$ 1,544	$ 8,652,301
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	8,709	-	-	-	-	-	-	8,709
Provision for loan losses	(153,126)	11,062	(872)	-	(517)	5,107	372	(137,974)
Other	(858)	(13,646)	(7,549)	-	336	159	(650)	(22,208)
Balance at September 30, 2022	$ 7,699,848	$ 571,192	$ 136,219	$ -	$ 7,141	$ 85,162	$ 1,266	$ 8,500,828
Balance at December 31, 2021	$ 8,000,301	$ 617,395	$ 104,326	$ -	$ 7,692	$ 73,156	$ 1,256	$ 8,804,126
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	25,902	-	-	-	-	-	-	25,902
Provision for loan losses	(318,763)	(37,618)	32,744	-	(1,334)	11,483	198	(313,290)
Other	(7,592)	(8,585)	(851)	-	783	523	(188)	(15,910)
Balance at September 30, 2022	$ 7,699,848	$ 571,192	$ 136,219	$ -	$ 7,141	$ 85,162	$ 1,266	$ 8,500,828
Ending Balance:								
Individually evaluated for impairment	$ 1,903,077	$ 352,220	$ -	$ -	$ -	$ -	$ -	$ 2,255,297
Collectively evaluated for impairment	5,796,771	218,973	136,219	-	7,141	85,162	1,265	6,245,531
Balance at September 30, 2022	$ 7,699,848	$ 571,193	$ 136,219	$ -	$ 7,141	$ 85,162	$ 1,265	$ 8,500,828
Balance at June 30, 2021	$ 7,493,922	$ 571,220	$ 104,763	$ 1,104	$ 9,125	$ 74,463	$ 1,256	$ 8,255,853
Charge-offs	-	-	-	-	-	-	-	-
Recoveries	9,427	-	-	-	-	-	-	9,427
Provision for loan losses	(114,083)	185,910	2,293	(1,104)	(3,126)	3,676	805	74,371
Other	-	(11,312)	(6,746)	-	1,065	43	(806)	(17,756)
Balance at September 30, 2021	$ 7,389,266	$ 745,818	$ 100,310	$ -	$ 7,064	$ 78,182	$ 1,255	$ 8,321,895
Balance at December 31, 2020	$ 7,116,942	$ 755,490	$ 188,161	$ 2,090	$ 6,668	$ 71,515	$ -	$ 8,140,866
Charge-offs	(15,448)	(537)	-	-	-	-	-	(15,985)
Recoveries	27,623	1,446	-	-	-	-	-	29,069
Provision for loan losses	260,149	(5,685)	(109,103)	(2,090)	1,618	6,030	2,061	152,980
Other	-	(4,896)	21,252	-	(1,222)	637	(806)	14,965
Balance at September 30, 2021	$ 7,389,266	$ 745,818	$ 100,310	$ -	$ 7,064	$ 78,182	$ 1,255	$ 8,321,895
Ending Balance:								
Individually evaluated for impairment	$ 1,289,020	$ 541,872	$ -	$ -	$ -	$ 6,421	$ -	$ 1,837,313
Collectively evaluated for impairment	6,100,246	203,946	100,310	-	7,064	71,761	1,255	6,484,582
Balance at September 30, 2021	$ 7,389,266	$ 745,818	$ 100,310	$ -	$ 7,064	$ 78,182	$ 1,255	$ 8,321,895

	Real Estate Mortgage	Production and Intermediate Term	Agribusiness	Communications	Energy and Water/Waste Water	Rural Residential Real Estate	Agricultural Export Finance	Total
Recorded Investments in Loans Outstanding:								
Ending Balance at September 30, 2022	$1,021,525,937	$ 131,538,670	$86,528,853	$ -	$ 8,969,946	$58,161,503	$ 1,581,280	$1,308,306,189
Individually evaluated for impairment	$ 7,549,008	$ 1,391,013	$ -	$ -	$ -	$ 55,029	$ -	$ 8,995,050
Collectively evaluated for impairment	$1,013,976,994	$ 130,147,657	$86,528,853	$ -	$ 8,969,946	$58,106,474	$ 1,581,280	$1,299,311,204
Ending Balance at December 31, 2021	$1,005,905,983	$ 114,541,621	$63,475,831	$ -	$ 2,553,042	$50,017,286	$ 1,578,592	$1,238,072,355
Individually evaluated for impairment	$ 8,204,825	$ 1,708,238	$ -	$ -	$ -	$ 60,572	$ -	$ 9,973,635
Collectively evaluated for impairment	$ 997,701,158	$ 112,833,383	$63,475,831	$ -	$ 2,553,042	$49,956,714	$ 1,578,592	$1,228,098,720

NOTE 3 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the association's goals and objectives with the board.

Regulatory Capitalization Requirements

Risk-adjusted:	Regulatory Requirements Including Capital Conservation Buffers	As of September 30, 2022
Common equity tier 1 ratio	7.00%	15.3%
Tier 1 capital ratio	8.50%	15.3%
Total capital ratio	10.50%	16.0%
Permanent capital ratio	7.00%	15.4%
Non-risk-adjusted:		
Tier 1 leverage ratio	5.00%	15.5%
UREE leverage ratio	1.50%	15.2%

The details for the amounts used in the calculation of the regulatory capital ratios as of September 30, 2022:

	Common equity tier 1 ratio	Tier 1 capital ratio	Total capital ratio	Permanent capital ratio
Numerator:				
Unallocated retained earnings	**216,559,822**	**216,559,822**	**216,559,822**	**216,559,822**
Common Cooperative Equities:				
Statutory minimum purchased borrower stock	**4,499,851**	**4,499,851**	**4,499,851**	**4,499,851**
Allowance for loan losses and reserve for credit losses subject to certain limitations			**8,749,775**	
Regulatory Adjustments and Deductions:				
Amount of allocated investments in other System institutions	**(20,155,010)**	**(20,155,010)**	**(20,155,010)**	**(20,155,010)**
	200,904,663	200,904,663	209,654,438	200,904,663
Denominator:				
Risk-adjusted assets excluding allowance	**1,336,459,511**	**1,336,459,511**	**1,336,459,511**	**1,336,459,511**
Regulatory Adjustments and Deductions:				
Regulatory deductions included in total capital	**(20,155,010)**	**(20,155,010)**	**(20,155,010)**	**(20,155,010)**
Allowance for loan losses				**(8,654,705)**
	1,316,304,501	1,316,304,501	1,316,304,501	1,307,649,796

	Tier 1 leverage ratio	UREE leverage ratio
Numerator:		
Unallocated retained earnings	**216,559,822**	**216,559,822**
Common Cooperative Equities:		
Statutory minimum purchased borrower stock	**4,499,851**	-
Regulatory Adjustments and Deductions:		
Amount of allocated investments in other System institutions	**(20,155,010)**	**(20,155,010)**
Other regulatory required deductions	-	-
	200,904,663	**196,404,812**
Denominator:		
Total Assets	**1,321,994,472**	**1,321,994,472**
Regulatory Adjustments and Deductions:		-
Regulatory deductions included in tier 1 capital	**(27,441,436)**	**(27,441,436)**
	1,294,553,036	1,294,553,036

An additional component of equity is accumulated other comprehensive income. The Association's accumulated other comprehensive loss relates entirely to its non-pension other postretirement benefits. Amortization of prior service (credits) cost and of actuarial (gain) loss are reflected in "Salaries and employee benefits" in the Consolidated Statements of Comprehensive Income. The following table summarizes the change in accumulated other comprehensive income (loss) for the nine months ended September 30:

	2022	**2021**
Accumulated other comprehensive loss at January 1	**$(430,075)**	$(659,156)
Amortization of actuarial loss included in salaries and employee benefits	**1,134**	21,735
Accumulated other comprehensive loss at September 30	**$ (428,941)**	$ (637,421)

NOTE 4 — INCOME TAXES:

Alabama Ag Credit, ACA, conducts its business activities through two wholly-owned subsidiaries. Long-term mortgage lending activities are conducted through a wholly-owned FLCA subsidiary which is exempt from federal and state income tax. Short- and intermediate-term lending activities are conducted through a wholly-owned PCA subsidiary. The PCA subsidiary and the ACA holding company are subject to income tax. Alabama Ag Credit, ACA, operates as a cooperative that qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, under specified conditions, Alabama Ag Credit, ACA, can exclude from taxable income amounts distributed as qualified patronage dividends in the form of cash, stock or allocated retained earnings. Provisions for income taxes are made only on those taxable earnings that will not be distributed as qualified patronage dividends. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized.

NOTE 5 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 13 to the 2021 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

September 30, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Assets held in nonqualified benefit trusts	**$ 161,888**	**$ -**	**$ -**	**$ 161,888**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Assets held in nonqualified benefit trusts	$ 166,221	$ -	$ -	$ 166,221

Assets and liabilities measured at fair value on a nonrecurring basis for each of the fair value hierarchy values are summarized below:

September 30, 2022	**Fair Value Measurement Using**			**Total Fair**
	Level 1	**Level 2**	**Level 3**	**Value**
Assets:				
Loans*	**$ -**	**$ -**	**$ 6,607,407**	**$ 6,607,407**

December 31, 2021	Fair Value Measurement Using			Total Fair
	Level 1	Level 2	Level 3	Value
Assets:				
Loans*	$ -	$ -	$ 6,247,772	$ 6,247,772

*Represents the fair value of certain loans that were evaluated for impairment under the authoritative guidance “Accounting by Creditors for Impairment of a Loan.” The fair value was based upon the underlying collateral since these were collateral-dependent loans for which real estate is the collateral.

Information About Recurring and Nonrecurring Level 3 Fair Value Measurements

With regard to nonrecurring measurements for impaired loans and other property owned, it is not practicable to provide specific information on inputs, as each collateral property is unique. System institutions utilize appraisals to value these loans and other property owned and take into account unobservable inputs, such as income and expense, comparable sales, replacement cost and comparability adjustments.

Valuation Techniques

As more fully discussed in Note 13 to the 2021 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Association’s assets and liabilities.

Assets Held in Nonqualified Benefits Trusts

Assets held in trust funds related to deferred compensation and supplemental retirement plans are classified within Level 1. The trust funds include investments that are actively traded and have quoted net asset values that are observable in the marketplace.

Loans Evaluated for Impairment

For certain loans evaluated for impairment under FASB impairment guidance, the fair value is based upon the underlying collateral since the loans are collateral-dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management’s knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, a majority of these loans have fair value measurements that fall within Level 3 of the fair value hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3 of the fair value hierarchy. The process for measuring the fair value of the other property owned involves the use of independent appraisals and other market-based information. Costs to sell represent transaction costs and are not included as a component of the asset’s fair value. As a result, these fair value measurements fall within Level 3 of the hierarchy. As of September 30, 2022, the Association has no other property owned in the consolidated balance sheet.

NOTE 6 — EMPLOYEE BENEFIT PLANS:

Employee Retirement Plans: As discussed in Note 2 and Note 11 to the 2021 Annual Report to Stockholders, employees of the Association participate in either the Texas Farm Credit District’s (District) defined benefit pension plan (DB Plan) or the District’s defined contribution plan (DC Plan).

The structure of the DB Plan is characterized as multi-employer since the assets, liabilities and cost of the plan are not segregated or separately accounted for by participating employers (Bank and associations). The Association recognizes its amortized annual contributions to the plan as an expense. The annual contribution is paid in January of each year and amortized into expense on a monthly basis; unamortized contributions are included in “Other Assets” in the consolidated balance sheet. The following table represents DB contributions made, amounts amortized into expense, and the remaining unamortized contributions amounts as of September 30:

	2022	2021
DB contribution	**$ 629,364**	$ 705,350
YTD amortization	**$ 472,023**	$ 529,013
Unamortized contribution	**$ 157,341**	$ 176,337

Association contributions to the DC Plan are expensed as incurred. For the nine months ended September 30, 2022 and 2021, the Association recognized pension costs for the DC Plan of $312,695 and $285,931, respectively.

Employees are also eligible to participate in the Farm Credit Benefits Alliance 401(k) Plan. Contributions to the 401(k) plan are expensed as incurred. The Association's contributions to the 401(k) plan were $183,405 and $184,614 for the nine months ended September 30, 2022 and 2021, respectively.

Other Postretirement Benefits: In addition to pension benefits, the Association provides certain health care benefits to qualifying retired employees (other postretirement benefits). These benefits are not characterized as multi-employer, and consequently, the liability for these benefits is included in the consolidated balance sheet. The following table summarizes the components of net periodic benefit costs of non-pension other postretirement employee benefits for the three months and six months ended September 30:

Three months ended September 30:	Other Benefits	
	2022	2021
Service cost	**$ 17,451**	$ 17,756
Interest cost	**25,714**	23,444
Amortization of prior service credits	**(5,056)**	(5,056)
Amortization of net actuarial loss	**5,434**	12,301
Net periodic benefit cost	**$ 43,543**	$ 48,445

Nine months ended September 30:	Other Benefits	
	2022	2021
Service cost	**$ 52,353**	$ 53,268
Interest cost	**77,142**	70,335
Amortization of prior service credits	**(15,168)**	(15,168)
Amortization of net actuarial loss	**16,302**	36,900
Net periodic benefit cost	**$ 130,629**	$ 145,335

The Association's liability for the unfunded accumulated obligation for these benefits at September 30, 2022, was $3,374,408 and is included in other liabilities on the balance sheet.

The components of net periodic benefit cost other than the service cost component are included in the line item "other components of net periodic postretirement benefit cost" in the income statement.

NOTE 7 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of legal counsel and management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 8 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through November 8, 2022, which is the date the financial statements were issued. There are no other significant events requiring disclosure as of November 8, 2022.